

INDIGENOUS BANKING MODEL

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Government Bond Guarantees

When severe commodity price fluctuations, drought, flood, fire and other situations cause the banks to deem farmers to be too great a risk to receive finance, one option is to establish a 'Trust' from a \$ Government guarantee loan program,

1. The auditor-general can direct the government to set aside 15% of the amount of the guarantee in respect of the annual budget.'
 2. The government provides a loan guarantee of \$400 million and sets aside \$60 million
 3. The guarantee is provided to a single purpose vehicle called a 'Trust' with community as beneficiaries.
 4. The 'Trust' works with the government agency that provides the guarantee
 5. The 'Trust' takes the Government's guarantee to the bond market - AAA piece of paper
 6. The bond department raises \$400 million on the federal Government guarantee
 7. The money flows onto producer organisations at a rate of 5%
 8. Financing that the bank couldn't touch, because they risk-rate the borrowers
 9. The producer organisations work with the bank to establish the parameters for downloading this money to community organisations to use the capital,
 10. Institutional investors are the purchasers of the bonds
 11. Large corporate customers like General Motors, Mining, Xerox buy because it's low risk.
 12. After five years an assessment should find that the loan losses are negligible.
 13. The loan losses on the entire \$400 million program possibly around \$12 million
 14. The government's \$400 million really hit the ground at a net cost of \$12 million
 15. The \$60 million set aside in the budget could then be released back into the system, less the \$12 million.
 16. An effective use of capital and an employment generator.
- A 'Trust' model can be used for the Government to build infrastructure and attract investment in Aboriginal communities.
 - The Trust is operated a board of Aboriginal appointed or elected representatives.
 - The Australian Government provides a guarantee to the Trust.
 - The Trust will consist of a \$400 million Federal Government guarantee, which would amount to setting aside \$60 million in their current budget.
 - So they get a \$400 million hit for a net cost today of \$60 million, less any losses they're going to experience in this program.
 - The Trust takes that guarantees the capital market and float a bond against it.
 - The Trust sell it to institutional investors and the money flows to the Trust at a cost of about 5 per cent.
 - The Bank gives an undertaking to the Government to initially manage the program and train Aboriginal people to manage the program within 5 years.
 - Under the Board of Trustees the money from the trust could be used to fund any number of programs, including infrastructure issues.
 - The Bank hires regional managers of Aboriginal banking, people who spoke their local language, who understood their territory very well.
 - The CEO of the Bank issues a directive that any branch that does not have Aboriginal banking on their radar screen, that will lose 20 per cent of their annual bonus payment.

The Key Advantages of the Trust:

The Trust does not affect the government's fiduciary obligations of education, health, human services. The amount of the Trust needs to be substantial to get the attention of bankers and investors in the bond market.

- The Trust meets the both the Government and Aboriginal community objectives of capacity building, controlled training and skills transfer within a set timeframe.
- It's the lowest possible cost of funds and private investors can't match this cost of funds.
- Trust participation by Aboriginal groups and organisations is optional.
- Programs can be added or deleted in the future, depending on their success.
- The Trust allows the re-circulation of Aboriginal funding money.
- Aboriginal organisations could buy the bonds and benefit their community and indirectly help other communities this reduces competition for funding under the auspices of a Federal Government guarantee.
- Money under this program can be raised from the capital markets. You can do this over and over and over.
- Loans are not cross-guaranteed by one organisation or community, which is not responsible for the other.
- It is efficient use of capital, with low overheads.
- The Bank proposes a number of basis points to operate this program and to transfer the skills to Aboriginal people.
- The net cost of the funds when it reaches the market is less than the cost .
- The Bank has a separate strategic funding budget for an annual allocation of money to assist a community or a line of funding.
- If a branch outlet or a community partner doesn't have the budget or inclination to pursue an opportunity, the Bank can jointly fund it for the branch to support their bottom line in the first year.
- Printed material developed by 'Marvin' or 'Streetwize', a colourful comic-style brochure called *My Moola*, or an Aboriginal avatar is aimed at providing Indigenous people with information about budgeting.
- The Trust is advertised in the NT papers, *Koori Mail*, *National Indigenous Times* and other publications where appropriate to heighten an awareness and communication between governments, corporations, Aboriginal communities, organisations and leaders.

The benefits for individuals and organisations are:

- cultural respect and understanding
- better service
- opportunity to deal with Indigenous people (wherever possible)
- equal or better interest rates and fees that allow more money for savings/spending
- opportunity to learn to save and budget, and
- community ownership and control.

References

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Banking on Indigenous Communities: Issues, options, and Australian and international best practice
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